TOWARD A CONTINGENCY THEORY OF STAKEHOLDER RELEVANCE AND THE STAKEHOLDER MAPPING PROCESS

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Abstract

Stakeholder Theory has been defined as an "additive model", in which all powerful, urgent and legitimate individuals and groups must be treated as important entities to engage with when evaluating important decisions for the organization. This thesis contends that stakeholder definition and the appropriate selection of important stakeholders depends, at least in part, on environmental influences. Thus, a "one definition for all environments" paradigm may lead to stakeholder mismanagement.This thesis illustrates this point with several typical examples, and proposes an alternative "subtractive model" in which situations – industry conditions as identified by a number of different authors – may compel an organization's leaders to prioritize those stakeholders who are less than "definitive" by the classical additive model. Thus, this thesis contends that a gap exists between existing organizational theory and stakeholder management literature with regard to environmental influence and proposes an alternative stakeholder mapping process derived from the extant literature.

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INTRODUCTION

The term "stakeholder" is commonplace among business students and professionals alike. The idea that stakeholders require effective management and are to be engaged is widely understood and implemented at a tactical and strategic level in most organizations today. Stakeholder theory, pioneered by R. Edward Freeman in 1984, suggests that the purpose of business is to create as much value as possible for their stakeholders (Freeman, 1984). In order to maintain successful operations, those responsible for directing the activities of the firm must consider the interests of relevant stakeholder groups and manage these interests in a way that best serves their strategic objectives.

Multiple branches of organizational theory examine the influence of the environment over the firm's activities and structure. These include Resource Dependence Theory, Institutional Theory, Population Ecology Theory, and Structural Contingency Theory. Structural Contingency Theory is particularly significant for this study as its central proposition is that the activities and structure of the firm are defined by the constraints (contingencies) established in its external environment.

Academy of Management Review

Key (1999) contended that Freeman's propositions do not accurately consider the firm's environment. This mischaracterization of a static environment fails to account for the level of uncertainty that organizations face in their environment. This assumption implies that the firm can "know" or "have complete information" about its environment.

The core of this study aims to identify this gap between organizational theory concerning the environment and the stakeholder approach to strategic management. The intended product of this research is a stakeholder mapping process that considers the influence of the environment. This tool is intended for use as a heuristic tool that practitioners may incorporate into their ongoing business activities to better engage with relevant stakeholders and improve value creation for both stakeholders and the firm.

The first section outlines organization theory in order to understand the utility of environment-based theories for explaining an organization's behavior and performance. A discussion of the various concepts of organizations as well as the different levels by which the organizations' structure, behavior, and performance are likely to be analyzed. This discussion provides context regarding the different streams of research all converging on the central contention that the environment warrants a certain degree of consideration in the firm's decision-making process.

A brief review of stakeholder theory and its foundations follows. This focused literature review, intentionally organized according to the steps proposed in the Stakeholder Mapping Process, provides support from the extant literature in developing the proposed stakeholder mapping process. Stakeholder theory has been employed here as a means for investigating the relationships between a given organization and its environment. The justification for this approach relies upon the position that this theory is dynamic enough to cover technical and institutional aspects of the phenomenon. Thus, stakeholder theory will help to explain how an organization engages with individuals, groups, and other organizations from its environment due to resource needs and due to the necessity for acceptance and legitimacy.

A discussion of the findings of this research follows a review of the stakeholder literature. This discussion synthesizes the findings from two streams of research to further explain the development of the stakeholder mapping process. This discussion focuses on the implications of this research for practitioners and serves as the framework for real world implementation of this process. Lastly, a discussion of the limitations of this research and suggestions for further exploration of the topics are identified.

The contribution of this research is twofold. First, it identifies a gap in the extant literature regarding the influence of the environment on stakeholder management and managerial decision-making. Secondly, it provides a tangible product in the form of a proposed stakeholder mapping process to guide practitioners in the strategic management of these critical constituencies.

RESEARCH METHODOLOGY

This thesis is a qualitative approach to address the gap in existing literature between the moderating role of the environment and effective stakeholder management practices. The nature of this research project suggests that an inductive approach to data analysis is suitable in developing an evidence-based conclusion.

The postulation of the initial research question was developed through a sample of existing stakeholder literature. A comprehensive assessment of the state of existing research shows which topics have previously been explored in the field of stakeholder theory and which topics warrant further investigation to deepen one's understanding of the stakeholder phenomenon.

The primary conclusion drawn from this review of the existing literature is that the extant empirical work conducted on stakeholder theory falls short of providing a comprehensive understanding of the dynamics of environmental-organizational fit as it pertains to practitioners tasked with managing stakeholders effectively.

To inform the development of the Stakeholder Mapping Process, a focused literature review with particular emphasis on bodies of literature discussing the environmental aspects of stakeholder management was conducted. The Mitchell, Agle, Wood article "Toward a Theory of Stakeholder Identification and Salience" (1997) and the Laplume, Sonpar, and Litz article "Stakeholder Theory: Reviewing a Theory that Moves Us" (2008) served as vital resources. When developing the theoretical framework for this project, these resources provided a useful background of the work previously conducted in the existing literature and gave a brief overview of some of the potential streams of research linking organization theory with stakeholder theory. Broadly speaking, the framework for the proposed stakeholder mapping process was developed through an iterative approach to revisiting the process steps and ensuring that they reflected an accurate depiction of the topics deemed important in the extant literature.

Yang and Rivers (2009) suggest that research on stakeholder management processes has converged on two related conceptual schemes: (1) identifying stakeholders (including identifying the stakeholder boundary), assessing the commitments and interests of stakeholders, and diagnosing their potential performance; and (2) analyzing different types of stakeholder relationships, explaining how stakeholders react to environmental factors and how managers must formulate strategies based on this analysis.

Cleland (1986) divided the project stakeholder management process into stakeholder identification, classification, analysis, and formulation of a management approach. Additionally, Karlsen (2002) described a six-step stakeholder mapping process that includes initial planning, identification, analysis, communication, action and follow-up. Findings from the extant literature (Cleland, 1986; Karlsen, 2002; McElroy & Mills, 2003; Yang & Rivers, 2009) suggest that the following activities should be included in stakeholder analysis: identification of stakeholders, characterization and classification of stakeholders and decisions about which strategy to use to influence each stakeholder. As a result of stakeholder analysis, project managers should be able to determine how to interact with and manage each stakeholder. Yet, these processes do not consider the role of the environment to the degree proposed for the purpose of this thesis. Once a review of the literature was compiled, the articles were categorized by their pertinence to a specific step in the mapping process and were summarized in the context of the step they addressed.

Upon completion of this initial survey of literature, a six-step process (Shown in Figure 5 on p. 25) was developed with the central purpose of aiding practitioners as an adaptive tool that considers the role of the environment in stakeholder management with the intended outcome of improving the firm's financial/social performance.

In essence, the main objective of this work is to understand what can often be a complex aspect of organizational strategy – stakeholder management. Stakeholder theory is a systemic concept in which the efforts and implications of organizational strategy are the result of the collective influence of relationships, interactions, perceptions, and positions of a variety of internal and external powers.

Lastly, based on the assessment of the extant literature, this thesis contends that there exists a need for further developments in stakeholder theory and offers additional suggestions for further exploration of topics identified through the course of the research.

THE ROLE OF THE ENVIRONMENT

The viability of the organization is not solely determined by actions and events within the organization itself. The success and survival of the organization are also mitigated (to some degree) by influences outside of the organization. This reality must be perceived by managers and addressed on a continuing basis as the organization is planned and operated. This section will examine two types of environment and how they are reciprocally linked to the organization: the general environment and the task environment

(Hall, 1982; Osborn & Hunt, 1974; and Kast & Rosenzweig, 1979). This thesis will demonstrate that the two types of environment are linked to one another as well as to the organization itself. Variation in any particular element of the three linked systems can, and often does, affect the others.

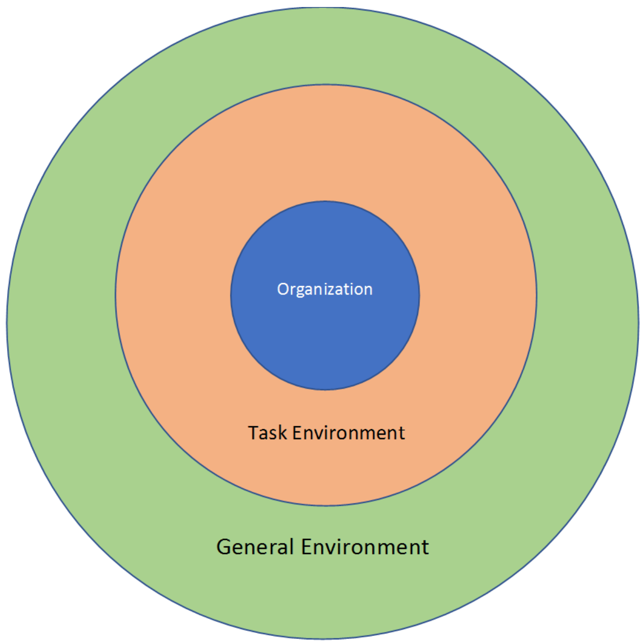

Figure 1: Levels of the Environment

General Environment

Environment, in the broadest sense, refers to the general political, economic, social, and technological context within which all organizations operate. Kast and Rosenzweig (1979) suggest nine important characteristics of the general environment which constrain the activities of all organizations. These characteristics are enumerated in Figure 2. While reviewing their findings, it should become apparent that each of these characteristics impacts all organizations embedded within the general environment.

General Environmental Characteristics for Organizations	
Cultural	Including the historical background, ideologies, values, and norms of the society. Views on authority relationships, leadership patterns, interpersonal relationships, rationalism, science, and technology define the nature of social institution.
Technological	The level of scientific and technological advancement in society. Including the physical base (plant, equipment, facilities) and the knowledge base of technology. Degree to which the scientific and technological community is able to develop new knowledge and apply it.
Educational	The general literacy level of the population. The degree of sophistication and specialization in the educational system. The proportion of the people with a high level of professional and/or specialized training.
Political	The general political climate of society. The degree of concentration of political power. The nature of political organization (degrees of decentralization, diversity of functions, etc.). The political party system.
Legal	Constitutional considerations, nature of legal system, jurisdictions of various governmental units. Specific laws concerning formation, taxation, and control of organizations.
Natural Resources	The nature, quantity, and availability of natural resources, including climatic and other conditions.
Demographic	The nature of human resources available to the society; their number, distribution, age , and sex. Concentration or urbanization of population is a characteristic of individual societies.
Sociological	Class structure and mobility. Definition of social roles. Nature of the social organizations and development of social institutions.
Economic	General economic framework, including the type of economic organization - private versus public ownership; the centralization or decentralization of economic planning; the banking system; and fiscal policies. The level of investment in physical resources and consumption characteristics.
This table is adapted from the following source: F.E. Kast and J.E Rosenzweig, *Organizations and Management: A Systems and Contingency Approach,* 3rd ed., New York: McGraw-Hill, Inc., 1979, p. 131.	

Figure 2: *Kast and Rosenzweig* (*1979*) *Characteristics of the General Environment*

The general environment, as described by Kast and Rosenzweig, is a constraint on the process of organizational design wherein the objectives of the organization must be reasonably matched to the environmental context in which they will be implemented.

Task Environment

One potential cause of the ambiguity regarding the effects of the environment on the firm can be found in a failure to distinguish between the two types of environment. In addition to the general environment, organizations are also confronted by a task (or specific) environment (Hall, 1982; Osborn & Hunt, 1974; and Kast & Rosenzweig, 1979). According to Hall, the specific environment is composed of the organizations and individuals with which an organization is in direct interaction (Hall, 1982).

The task environment differs for each organization, whereas the general environment is essentially the same for all organizations in a given industry or society (Kast & Rosenzweig, 1979). The organization is linked with its task environment within the context of the general environment. The organization engages with units of its task environment, each affecting the other, but both are impacted by the general environment (and vice versa). A failure to clearly distinguish the two types of environment can only add to managerial confusion concerning the effects of the environment on the specific organization.

The Open Systems Perspective

Scott (1998) argued that organizations are systems with rational, natural, and open characteristics. As rational systems, these organizations are formalized structures seeking to achieve goals (i.e. profit maximization, increased corporate social responsibility, etc.). As natural systems, organizations are engaged in a struggle for survival within the context of their own environment. Lastly, as open systems, organizations are entities that exist to the extent that they can successfully interact with their environment. Scott observed that the combination of these three approaches has resulted in the development of “new” theories for conceptualizing the organization’s behavior and performance. These theories are:

(1) Open and Rational Theories are the result of the combination of open systems with rationalistic approaches. In this stream of research, theorists are concerned with the way in which the organization transforms its structure and behavior to confront the demands of the environment. A relevant branch of this stream that will be discussed later in this thesis is Structural Contingency Theory (Lawrence & Lorsch, 1967; Thompson, 1967).

(2) Open and Natural Theories resulting from the synthesis of opens systems with naturalistic approaches. These theories seek to understand how the organization’s behavior responds to environmental forces. In this stream of research, the organization’s structure is likely to be steered by external rules and patterns of behavior. The main branches in this vein include Population Ecology Theory (Hannan & Freeman, 1977), Resource Dependence Theory (Pfeffer & Salancik, 1978), and Institutional Theory (Selznick, 1949).

Given this interconnection between organization and environment, it can be reasonably deduced that most organizations qualify as open systems. An open system, by definition, transacts with other units in its task environment and is also impacted by events in the general environment. An open system perspective benefits managers in that it increases their sensitivity to the events and changes outside the organization. This understanding aids managers in assessing the impact of these external factors on the organization's internal functions and processes.

Analyzing Scott's typologies for categorizing organizational theories, one might deduce that the organization must be studied within the context of its environment, both specific and general. Indeed, an organization interacts on an ongoing basis with numerous environmental influences. This occurrence is very likely to explain organizational behavior and performance. In support of this assertion, Child (1976) argued that: "No organization operates in a vacuum." (2) In accordance with Child's argument, Lawrence and Lorsch's (1967) study proposed to explain environmental influences upon organizations in which the basic assumption was: "organizational variables are in complex interrelationship with one another and with conditions in the environment" (157). Another perspective in this school of thought is the Darwinian perspective offered by Hannan and Freeman (1977) in which the organization moves forward in pursuit of adaptation and fit (and therefore survival).

Defining the organization's environment

Pfeffer and Salancik (1978: p.2) suggested that the organization's environment can be defined as "a set of external events in the world which has any effect on the activities or outcomes of the organization." Scott (1998) contends that the environment can be classified either by the levels from which it is composed or by the nature of the relationships linking the organization with its environment. The levels of analysis as proposed by Scott are: organization sets, organization populations, organization communities, and organization fields (Scott 1998; Scott & Meyer, 1991). Regarding the nature of the relationships, Scott emphasizes the relationship between the organization and its environment. Scott claims the organization's environment can be defined as technical (task) or institutional (general) (Scott, 1998).

Scott (1998) contends that the technical environment (also called the task environment) comprises the sources of inputs as well as the destinations for the organization's outputs (Scott, 1998). Essentially, this technical environment is the immediate environment in which organizations compete for scarce resources. The institutional (general) environment, however, creates the set of norms, beliefs and values by which the organization's behavior should be steered in order to achieve legitimacy (Greenwood & Hinings, 1996).

Environmental Influences

Considering Scott's view of organizations as open systems, as firms interact with their external influences, they can be expected to engage with their environment in order to achieve legitimacy. This interaction is a precondition of the system within which the firm competes to survive (Pfeffer & Salancik, 1978). Institutional and resource dependence theorists contend that the organization's behavior is significantly impacted by external pressures (Oliver, 1991; Greening & Gray, 1994). An organization is likely to survive to the extent that it can cope with these external demands and expectations (Oliver, 1991).

Acknowledging these theories, some authors contend that the process of depicting environmental influences on the organization begins with the identification of the external potential agents most likely to influence the organization (Pfeffer & Salancik, 1978; Freeman, 1984; Bryson, 1995; David, 1995; Ansof, 1988; Greenley & Foxall, 1997; Frooman, 1999; Roy & Seguin, 2000). In this vein, the relationships between the organization and its main influential stakeholders might appear either in the form of interest of organizational objectives or as a result of the stakeholder's power to influence the organization (Mitchell, Agle, & Wood, 1997).

Structural Contingency Theory

The contingency theory of organizational structure has its origin in a number of well-known organizational studies that examine the relationship between the internal organizational structure of firms and the demands placed upon these organizations by their external environment (Lawrence & Lorsch, 1967; Thompson, 1967).

During the 1960s, the necessity for examining the impact of the external environment on an organization became apparent. Contingency theory is the idea that the organizational structures and control systems that managers select depend upon (are *contingent* upon) variables of the external environment in which the firm operates. J.R Galbraith (1973) provided a succinct characterization of the premises of structural contingency theory. Galbraith states:

(1) There is no one best way to organize/structure the firm.

(2) All means of organizing are not equally effective under certain conditions

Thus, structural contingency theory argues that an organization's appropriate design depends on its environmental context. Many variants of the structural contingency theory have undertones of the consonance hypothesis embedded within them. The consonance hypothesis posits that those organizations whose structures more closely match the requirements of their environmental context are more effective than those that do not. The fundamental objective of contingency theory is to achieve the optimal environment-organization fit. The role of the organizational manager, then, acts to produce congruence between organizational structure and the environmental constraints (contingencies) which deem such a structure appropriate. This deduction is supported by Perrow, who stated "in the interest of efficiency, organizations wittingly or unwittingly attempt to maximize the congruence between their technology and their structure." (Perrow, 1970: 80)

Constraints and Adaptation

Burns and Stalker (1961) proposed two basic means by which managers can organize and dictate an organization's activities in response to its environment:

(1) A "mechanistic" structure for those organizations in stable environments

(2) An "organic" structure for those organizations in changing environments

The mechanistic structure introduced by Burns and Stalker can be linked to the McGregor's Theory X, as it exhibits managerial authority focused at the top and dictating the actions of subordinates, close supervision of subordinates with clearly defined tasks/roles, and an emphasis on discipline and order (McGregor, 1960). In contrast, the organic structure can be linked to McGregor's Theory Y as it exhibits empowerment of middle and first-line managers to take responsibility, ambiguous task/role expectations, and cross-departmental teams to address complex issues (McGregor, 1960).

Lawrence and Lorsch (1967) investigated the relationship between organizational characteristics and the organization's external environment and stipulated that an organization's economic performance is determined by (is *contingent* upon) its ability to meet integration and differentiation requirements according to the environment. Their study is a comparative survey of six industrial organizations in the chemical processing industry with data obtained via questionnaires and executive interviews. Lawrence and Lorsch compared the integration and differentiation between subgroups in each organization (i.e. sales, R&D, production) as they attempt to meet requirements from their own unique sub-environments. Their article demonstrates that the most successful organizations (by economic measures) were those who managed to fulfill the dual goal of differentiation (confronting environmental uncertainty) and integration (aligning work of highly differentiated internal departments) within the parameters set by their environment. This publication is a key contribution in the development of organizational contingency theory as it shifts the focus of organizational study beyond strictly internal dynamics and structure in favor of greater emphasis on the organization's alignment with its external environment.

Thompson (1967), borrowing from earlier research conducted by Parsons (1960), identifies three levels of the organization (technical, managerial, and institutional). Thompson's main argument is that the managerial level of the organization should mediate between these other two organizational levels to operate under the environmental contingencies to maintain a proper balance. At the organizational level, specifically, Thompson states that it is crucial to adjust to the constraints and contingencies that the organization itself cannot control (in other words, "adapt" to the environment).

The line of research pursued by Lawrence and Lorsch (1967) reaches a different resolution than that explored by Thompson (1967). Lawrence and Lorsch discussed the variation among organizations as they react to uncertainty in their external environment, whereas Thompson explored the variation among the three levels within an organization. Both approaches study a similar paradox to reveal two key insights: (1) organizations confront environmental influences that warrant a dynamic approach to organizational structure and (2) organizational structures are not consistent across all environments/industries. With their works published in the same year, Lawrence, Lorsch, and Thompson essentially defined the contingency theory of organizational structure.

Hannan and Freeman (1984) discussed the concept of "structural inertia" which contends that organizations frequently have difficulty changing strategy and structure quickly enough to keep pace with the demands of uncertain, changing environments. This theory identifies a unique paradox in organizational theory. On one hand, success of the organization depends on a routine that produces consistent and reliable results over time. However, as external conditions change in a dynamic environment, organizations must adapt and alter their now obsolete patterns of activity to compete in the context of their new environment.

Pfeffer and Salancik (1978) suggested that a firm's environment can be defined as a set of external "events in the world which has any effect on the activities or outcomes of the organization" (12). Their work is a seminal contribution, as it proposes that organizations are highly dependent (contingent) on environmental factors. While prior works focused on the internal aspects influencing the structure of the organization, Pfeffer and Salancik argued that an emphasis on the environment of organizations can provide a solid understanding of why organizations assume particular structures and act in specific ways. They introduce three central concepts in their work:

(1) <u>Organizational effectiveness</u>: A measure of whether an organization can achieve desirable outcomes (different measures for internal vs. external effectiveness)

(2) <u>Organizational environment</u>: An overarching term used to encompass all organizations, entities, and events surrounding the "focal organization

(3) <u>Constraints</u>: When actions are routine (non-random) and predictable, behaviors shall be constrained in that they must adhere to these standards/routines.

Miles and Snow (1978) developed a model to subjectively classify organizations based on their patterns of strategic approaches to managing their environment. Through their research, they identified four categories of strategic approach: Prospector, Analyzer, Defender, and Reactor. This typology identifies strategy as the amalgamation of decisions utilized by the business to align its management objectives with its external environment.

Strategic Typology- Miles and Snow (1978)				
Dimension	**Defender**	**Analyzer**	**Prospector**	**Reactor**
Perception of Environment	Stable	Moderately dynamic	Dynamic and growing rapidly	None
Market Strategy	Maintain market share	Maintain market, but selectively engage in innovation	Seek and exploit opportunities - aggressively identify opportunities.	No coherent strategy
Underlying value of Strategy	Efficiency/flexibility	Mixture of efficiency values	Flexibility	None defined
Focus of Operation	Control costs, mechanistic organization*	Cost control and innovation	Innovation, expansion, organic organization*	Depends on immediate circumstances - short-term orientation
*****See Pffefer and Salancik (1978)				

Figure 3: *Miles and Snow* (*1978*) *Archetypes*

Miles and Snow contend that each of the first three archetypes (Prospectors, Analyzers, and Defenders), through their strategic approaches, can be successful if they align their strategy to their competitive environment. The fourth category (Reactors), due to their failure to develop and deploy an effective strategy to align their objectives with their external environment, will tend to be the least successful group.

Donaldson (2006) states that “the most effective organizational structure design is where the structure fits the contingencies”(1). Donaldson elaborates upon this statement by positing that, under the conditions of hetero-performance theory, organizations who “fit to a higher level of the contingency produce higher performance than fits to lower levels of the contingency” (6). Therefore, when the environment changes, the organization’s structure must adapt in order to avoid the performance loss from a misfit between organization and environment (in other words, to sustain the existing level of performance), even if the new structure will not yield any additional performance improvements (Donaldson, 2006).

Stakeholder Theory and the Mediating Role of the Environment

Edward Freeman (1984) proposed a stakeholder analysis process for scanning the organization’s external environment to identify opportunities and threats as well as to improve the exercise of the organization’s value judgment. In addition, he suggests that a map of the principal individuals/groups who are likely to influence (or be influenced by) the organization be constructed to assist in the managerial decision-making process.

Bryson (1995) argued that, in addition to identifying external opportunities and threats, an organization’s objectives are also defined through an evaluation of its internal strengths and weaknesses. Furthermore, due to the scarcity of available resources, a balance must be achieved between the objectives of the firm and the diverse gamut of stakeholders’ interests (Greenley & Foxall, 1997). Reinforcing these arguments, Pfeffer and Salancik (1978) argued: “Organizations could not survive if they were not responsive to the demands from their environment. On the other hand, if an organization responds completely to environmental demands it would not survive as well" (43).

Key (1999) concluded that stakeholder theory does not adequately address the environment surrounding the firm. She criticized Freeman's (1984) model for a lack of understanding of the operation of a larger system that includes the firm's environment. This limitation only analyzes stakeholder relationships at one level, between the stakeholder and the firm, and only partially considers the firm's environment as a "stakeholder group." This conclusion that firm interactions are limited only to stakeholder groups suggests that the firm ultimately possesses control over its environment and is unmitigated in any way by the system in which it operates. Key also noted that Freeman's stakeholder theory inaccurately characterizes the environment as "static" and does not provide an understanding of how the organization is to manage change.

Donaldson (2006) stated that "organizational design can help managers to better attain higher performance for their organizations by adopting a more effective structure" (38). Donaldson emphasizes the importance of the fluidity of organizational structure as it relates to environmental fit stating that "by solving organizational design problems…management can gain competitive advantage over rival organizations" (38).

STAKEHOLDER THEORY: A BRIEF HISTORY

The first definition or concept of the term "stakeholder" was presented in the Canadian Oxford dictionary (1708) as "a person who holds a stake or stakes in a bet" (Ramirez, 2000). In a literal sense, the term "stakeholder" has not departed significantly from this original definition. The term is still used to describe those groups and individuals who engage with entities based on the benefits or harm that result from such a relationship.

The stakeholder concept is also not a new one as the theoretical use of the term by Barnard can be seen as early as 1938 and by theorists like March and Simon in 1958. The first use of "stakeholder" in an organizational context originated in a 1963 memorandum of the Stanford Research Institute (Freeman & Reed, 1983; Friedman & Miles, 2006). The practical application of the stakeholder concept also dates back a bit earlier to the 1930s and 1940s when General Electric Company identified four key "stakeholder" groups - shareholders, employees, customers, and the general public (Friedman & Miles, 2006).

First Seminal Work: Freeman (1984)

The first seminal work in the development of stakeholder theory is Edward Freeman's book *Strategic Management*: *A Stakeholder Approach* (1984). As previously discussed, the stakeholder concept was explored both in academic literature and organizational practice prior to the 1980s, but the true significance of Freeman's contribution is that he was the first scholar to develop a cohesive theory not only on the concept of “stakeholder,” but on stakeholder theory.

Within the context of the external environment, Freeman's book was published in a time of economic downturn and turbulent changes in the global social and political landscape. In an environment characterized by stockholder activism, competition from foreign firms, political pressures on access to the supply of raw materials, activism and mobilization of consumer advocacy groups, expansion of government influence (federal and local) over business activities, and an increase in special interest groups, Freeman argued that a strategic approach to business management is needed to enhance the economic viability of the organization.

Second Seminal Work: **Donaldson and Preston (1995)**

The second seminal work in the development of stakeholder theory is Thomas Donaldson and Lee Preston's 1995 article “The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications” in the *Academy of Management Review*. Citing this as the second important work in the development of stakeholder theory does not denigrate the 11 years of progress between 1984 and 1995, but simply acknowledges that the perspective offered by these authors made a significant contribution in the theoretical development of this field of study.

The significance of this article stems from the fact that it offers three categories — normative, instrumental, and descriptive — to analyze stakeholder theory. Since the publication of this work, these three categories have been widely used by theorists to describe how to interpret stakeholder theory and where stakeholder theory can be applied. Additionally, the works published in the period between Freeman (1984) and Donaldson and Preston (1995) can be categorized using these theoretical classifications.

Donaldson and Preston (1995) contend that these three dimensions of stakeholder theory are crucial as they explain various approaches to offer a comprehensive assessment of the theory. In their view, the three dimensions are "nested": the outer shell of descriptive theory is reinforced by the "instrumental predictive value" in the next level (instrumental), and finally, the descriptive accuracy of the theory presumes the truth of the "normative core."

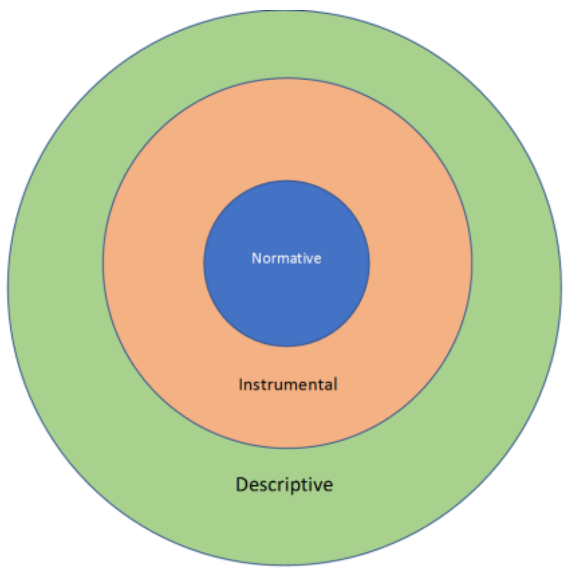

Figure 4: The Three Aspects of Stakeholder Theory (*adapted from Donaldson and Preston, 1995*)

In essence, Donaldson and Preston (1995) argue that stakeholder theory explains organizations at three levels — descriptive, instrumental, and normative — and that these three levels are interconnected to give stakeholder theory the adaptability to maintain a relevant presence in a dynamic business environment. Further, this article analyzes the role of the manager at three levels: (1) What does the manager do? (Descriptive); (2) What is the outcome of managerial action? (Instrumental); and (3) What should managers/organizations do? (Normative).

In recent years, the term "stakeholder" has shifted from solely an academic term to a sort of "hot topic" within debates of ethical or political issues. In Britain, for example, former Prime Minister Tony Blair's proposition of a "stakeholder economy" provides evidence that this term had transcended academic boundaries (Laplume, Sonpar, & Litz, 2008).

Popular as this concept may be, stakeholder theory has not reached fruition as an academic discipline without its share of critics. Jones (1995) was among the first group of academics to contend that many of the central propositions of stakeholder theory lacked empirical validation as was the case more than a decade later when Laplume, Sonpar, and Litz (2008) reviewed 179 articles that referenced Freeman's stakeholder theory to conclude that stakeholder theory had plateaued (Jones, 1995; Laplume, Sonpar, & Litz, 2008).

STAKEHOLDER MAPPING PROCESS

Drawing from this literature review, a significant gap in the existing stakeholder literature exists with regard to the environment's influence upon stakeholder mapping. To rectify such an omission, this thesis proposes a six-step mapping process that takes into account the variety of environmental contingencies which influence the relative importance of stakeholder claims. Figure 5 below illustrates the proposed stakeholder management. A discussion of the existing literature on each proposed step follows.

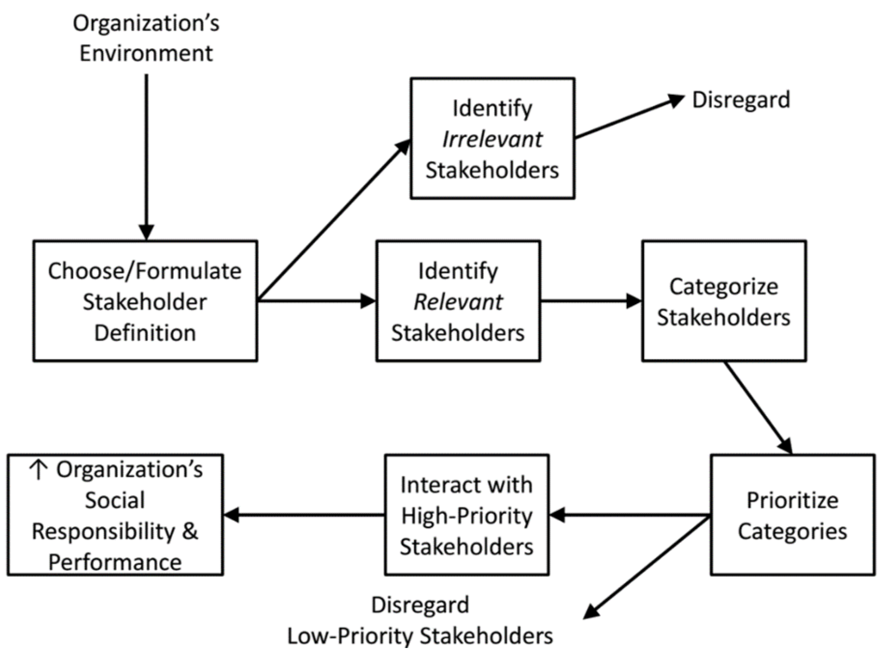

Figure 5: Proposed Stakeholder Mapping Process

Choose/Formulate Definition of Stakeholder

The previous section introduced stakeholder theory by summarizing two seminal works, Freeman (1984) and Donaldson and Preston (1995). Stakeholder theory, at its core, describes the managerial function as the locus of control in firm decision-making.

This section reviews the stakeholder literature in a systematic fashion to identify six key process steps emerging from the literature. These steps are: (1) Choose stakeholder definition, (2) identify relevant stakeholders, (3) categorize stakeholders, (4) prioritize stakeholders, (5) engage with high-priority stakeholders, and (6) increase firm performance.

Within existing literature, there is a fairly general consensus on which type of entity may qualify as a stakeholder. People (or groups of people), governmental institutions, media outlets, larger organizations, and even factors such as the natural environment qualify as a potential stakeholder by various definitions within existing literature. The definition of stakeholder, then, is largely derived from the individual firm's collective definition of what it means to "have a stake."

In the formative years of the development of the stakeholder theory, Jones (1980) provided one of the earliest conceptions that firms possess obligations to entities outside of the scope of their fiduciary responsibility by stating that "corporations have an obligation to constituent groups in society other than stockholders and may go beyond mere ownership" (59-60). How then does one reconcile the interests of these numerous constituent groups to which the firm bears an obligation?

The exploration of this topic laid the groundwork for the development of stakeholder theory. Alkhafaji (1989) defined stakeholders as "groups to whom the corporation is responsible" (36). Thompson, Wartick, and Smith (1991) define a stakeholder as "anyone in a relationship with an organization" (209).

As with any operational definition, theorists often assume different positions on whether to adopt a broad or narrow definition of stakeholder. This difference in opinion, noted by Windsor (1992), was also foreseen by Freeman and Reed (1983) as they presented their broad definition of a stakeholder as an individual or group who "can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives." This definition by Freeman and Reed was maintained in Freeman's *Strategic Management*: *A Stakeholder Approach* (1984: 46). Freeman's definition, one of the most frequently cited in management literature, is also one of the most ambiguous as it leaves much room for interpretation and does not distinguish whether a reciprocal relationship must exist between stakeholder and firm for the entity to qualify as a stakeholder. While Freeman's (1984) definition only excludes those individuals (or groups) who cannot affect the firm and are not influenced by the firm, Clarkson (1995) offers a much more focused definition of the stakeholder as a bearer of risk. Clarkson states that "without the element of risk, there is no stake" (106).

The major point of departure between broad and narrow definitions of stakeholder are based on their operational context. As stated by Mitchell, Agle, and Wood (1997), "narrow views of stakeholders attempt to define relevant groups in terms of their direct relevance to the firm's core economic interests" (857). Several authors discuss the stakeholder's relevance in terms of their necessity for the firm's survival (Bowie, 1988; Freeman & Reed, 1983; Nasi, 1995). Other authors discuss the stakeholder in terms of their claim over the firm by their contractual or exchange relationships (Freeman & Evan, 1990; Hill & Jones, 1993; Cornell & Shapiro, 1987).

A few authors presenting a narrow definitional view discuss the stakeholder in terms of a moral relationship with the firm (Freeman R. E., 1994; Wicks, Gilbert, & Freeman, 1994) or in the sense of the firm's obligation to fairly distribute the risks and inducements associated with the firm's actions (Donaldson & Preston, 1995; Evan & Freeman, 1988; Langtry, 1994). Specific definitions aside, the trend among those authors favoring a narrow definition of stakeholder is that the relevance of the stakeholder is generally derived from a direct connection to the firm's economic interests.

The broad definition of stakeholders, however, is rooted in the view that companies can be affected by, or can affect, essentially anyone. This broad definition, however, can prove cumbersome for operational purposes due to the increased level of complexity in interpreting which stakeholders are truly relevant to the strategic interests of the firm (LaPlume, Sonpar, & Litz, 2008; Freeman, 1984).

In order to bring more clarity to this multiple-definition problem, Matuleviciene and Stravinskiene (2015) organized the stakeholder concepts following the paradigm set forth in Mitchell, Agle, and Wood's 1997 article as follows: (1) existing relationship between organization and stakeholder(s); (2) power dependence (Firm Dominant, Stakeholder Dominant, Mutual Power-Dependence); (3) basis for legitimacy of relationship (Contract, Risk, Claim, Moral Obligation); and (4) stakeholder interests (Legitimacy not implied).

From this stream of literature, it is apparent that multiple definitions for "stakeholder" exist. The relevance of this finding is that managers must consider the influence of the environment when formulating their definition of stakeholder to achieve a proper fit between organization and environment. The definition of stakeholder, as the initial step in the proposed stakeholder mapping process, is the linchpin stage of the process. The process, as it stands, cannot proceed without a clear understanding of who/what qualifies as a relevant stakeholder for the organization. The next section refers to the extant literature to discuss the second stage of the proposed stakeholder mapping process.

Identify Stakeholders

The previous section identified the first step in the proposed stakeholdermapping process – choosing/formulating a definition of stakeholder. The second step, almost equal in importance, is the identification of relevant stakeholder constituencies. The role of the manager is to make use of the criteria established through the first process step to identify those groups whose claims on the firm warrant managerial attention.

Thus, stakeholder identification is a critical step in the stakeholder mapping process as it could be harmful to the firm's objectives if a stakeholder (or group of stakeholders) is overlooked. As numerous authors state, companies often find it difficult to discern which stakeholders are important to the successful achievement of the firm's objectives (Kaler, 2002; Tashman & Raelin, 2013).

Those stakeholders who engage in voluntary transactions with a firm and contribute to its operations (shareholders, employees, customers, etc.) expect to benefit as a result of this relationship. Involuntary stakeholders, particularly those impacted by the firm's course of operation by externalities such as pollution or market influence (job creation, layoffs, competition, etc.), expect that they will at least be as well off as they would have been if the firm did not exist (Post et al., 2002: 22).

Friedman (1970) contended that companies have an obligation to consider the interests of actors other than shareholders alone. According to Evan and Freeman (1988), “stakeholder theory” is founded on the principle that the ultimate purpose of the company is “to serve the interest of those identified as stakeholders” by creating value for these key groups.

Carroll (1993) argued that stakeholders are “those groups or individuals with whom the organization interacts or has interdependencies” (60). This interdependence, however, cannot stand alone as the definitive answer to the normative question of who a company has an obligation toward. Interdependence alone does not encompass all “stakeholders” as defined in management literature such as competitors or potential employees (Cappelen, 2004). For example, Donaldson and Preston argued that a firm should develop a normative stakeholder theory that reconciles how companies should evaluate stakeholder interests, even in the absence of any potential benefit (Donaldson & Preston, 1995).

Savage, Nix, Whitehead, and Blair developed two criteria for identifying a stakeholder: (1) the stakeholder must have a legitimate claim and (2) the stakeholder must have the ability to influence the firm (Savage, Nix, Whitehead, & Blair, 1991). In contrast, both Brenner (1993) and Starik (1994) argued that these attributes of stakeholder identification are either/or criteria. As discussed by Mitchell, Agle, and Wood (1997), influencers have power over the firm whether they have valid claims or not, while claimants may have legitimate claims but lack the power to influence the firm.

From the discussion regarding stakeholder identification, one may identify commonalities that would allow managers to identify different classifications of stakeholders. Mitchell, Agle, and Wood (1997) discussed the idea of stakeholder salience as a basis for how managers consider certain classes of entities as stakeholders based on three factors: power, legitimacy, and urgency. The argument posed by Mitchell, Agle, and Wood does not explicitly dictate which classes of stakeholders to focus on and which to disregard, but poses a paradigm that facilitates managerial understanding of how managers must manage stakeholders to achieve an intended outcome.

Cappelen (2004) proposed two approaches to stakeholder identification. The first, the relationship approach, views a company's obligations, and the corresponding rights of stakeholders derived from these relationships. The second, the assignment approach, claims that there is an inherent moral obligation that is the same for all humans regardless of the nature of the relationship — a stark contrast to the relationship approach. Under the assignment approach, it is the responsibility of the firm to distribute responsibility in a way that is morally sound and acts in the best interest of the general welfare of their stakeholders (Cappelen, 2004).

Atkinson, Waterhouse, and Wells (1997) contended that stakeholders can be perceived as environmental or process-related. Environmental stakeholders are those embedded within the external environment where the organization operates. For Atkinson et al. (1997), “this group defines the company’s external environment that, in turn, defines the critical elements of its competitive strategy” (27). Process-related stakeholders, on the other hand, are internal groups such as employees or suppliers. This group is actively engaged “to plan, design, implement, and operate the process that make and deliver the company’s products to its customers” (27). An important consideration noted by Harrison and Wick (2013) are that economic returns (an increase in firm financial performance) is not the only fundamental concern to a firm's most crucial (salient) stakeholders.

Freeman et al. proposed four criteria for identifying stakeholders and typifying the relationship between the stakeholder and the firm (Freeman, Wicks, & Parmar, 2004):

(1) A direct or indirect connection exists between the stakeholder and the organization.

(2) A stakeholder represents definable interests.

(3) A stakeholder is perceived as a legitimate and integral part of the organization, and

(4) Stakeholders may undertake different functions/roles in relation to the organization.

While identifying stakeholders is a necessary step in the stakeholder mapping process, simply identifying a stakeholder is insufficient for managers in attempting to interpret and understand their organization's environment. A comprehensive method for identifying, analyzing, and prioritizing claims is necessary for stakeholder theory to be of practical relevance in the context of a more dynamic external environment. The following section discusses the rationale among stakeholder theorists for classifying relevant stakeholders by detailing both their stakeholder classification typologies and the theoretical foundations for the development of these classification schemes.

Categorize Stakeholders

The previous section highlighted the literature regarding stakeholder identification. Once relevant stakeholder groups are identified, the next proposed process step is to develop a mechanism by which managers may organize these stakeholders (and their interests) into manageable groups. This section surveys the extant literature to identify existing typologies of stakeholder classifications and provides the practitioner with a clear concept of how the stakeholder literature proposes to organize the multitude of stakeholder relationships facing the firm.

During the formative stages of stakeholder theory, R. Edward Freeman (1984) divided stakeholders into two groups: internal and external stakeholders. Shareholders/owners, employees, managers, and the board of directors are those groups most commonly understood as "internal stakeholders." External stakeholders, however, include those groups not considered to be internal stakeholders. This group might include competitors, customers, suppliers, the government, the media, government regulatory agencies and financial institutions (Freeman, 1984; Sontaite, 2011; Florea & Florea, 2013).

Many authors, in addition to an internal/external conceptualization of stakeholder grouping, classify stakeholders as either primary or secondary stakeholders (Freeman, 1984; Clarkson, 1995; Mitchell et al., 1997; Bailur, 2006; Sontaite, 2011; Florea & Florea, 2013; Mishra & Mishra, 2013; Wolf, 2014). In this way, the organization is conceived of as a network of explicit and implicit relationships spanning both the internal and external environments (Clarkson, 1995).

The primary stakeholder is vital to the organization's survival. That is to say that their withdrawal of support can lead the organization to cease operations (Pfeffer and Salancik, 1978; Freeman, 1984; Clarkson, 1995; Bailur, 2006; Sontaite, 2011; Mishra & Mishra, 2013). Clarkson (1995) argues that secondary stakeholders are also vital to the organization in terms of their relationship but the distinction lies in the understanding that the organization's persistence is not directly contingent upon the support of the secondary stakeholders.

Sontaite (2011) identifies primary stakeholders as consumers, suppliers, employees, stockholders (owners), and the community. Subsequently, secondary stakeholders were identified as the media, the firm's competitors, financial institutions, the government, and public interest groups. Florea and Florea (2013) proposed a third group to include stakeholders that did not "fit the mold" of the primary/secondary typology. This third group, key stakeholders, are defined as “people or organizations who might belong to either or neither of the first two groups” (132). These stakeholders are relevant because of their involvement in the management and financing of the firm and for their participation during decision-making process and implementation. These key stakeholders include policymakers, officials, important professionals, or community personalities who have a strong position or influence (Florea & Florea, 2013).

Goodpaster (1991) outlined an apparent paradox that accompanies the stakeholder approach. Management appears to have a contractual duty to manage the firm in the interests of the stockholders and at the same time management seems to have a moral duty to take other stakeholders into account. Goodpaster argues that stakeholder synthesis is either strategic or multi-fiduciary. In his exploration of what he deems the “stakeholder paradox,” Goodpaster (1991) identifies two categories of stakeholder: strategic and moral stakeholders.

According to Savage et al. (1991), a stakeholder has the potential to present either an opportunity or a threat to the firm. The organization must evaluate how influential each stakeholder (or stakeholder group) is and to what extent the stakeholder represents a threat or an opportunity to the objectives of the firm. Thus, Savage et al. proposed a model for classifying stakeholders according to their capacity for threatening the organization and potential to cooperate with the organization.

<table>
<tr><th colspan="4">Stakeholder Typology: Savage et al (1991)</th></tr>
<tr><td colspan="2"></td><td colspan="2">Stakeholder's Potential to threaten the Organization</td></tr>
<tr><td colspan="2"></td><td>High</td><td>Low</td></tr>
<tr><td rowspan="2">Stakeholder's Potential for Cooperation with the Organization</td><td>High</td><td>Mixed Blessing</td><td>Supportive</td></tr>
<tr><td>Low</td><td>Nonsupportive</td><td>Marginal</td></tr>
<tr><td colspan="4">Savage, G. T., Nix, T. W., Whitehead, C. J., & Blair, J. D. (1991). Strategies for assessing and managing organizational stakeholders. The executive, 5(2), 61-75.</td></tr>
</table>

Figure 6: Adapted from Savage et al. (1991) Typology for Stakeholder Classification

Mitchell, Agle, and Wood (1997) defined three attributes to describe stakeholders: powerfulness, urgency, and legitimacy. Using these three attributes, they developed eight classifications of stakeholders. Each classification represents a specific combination of the three attributes. For example, a dominant stakeholder lacks urgency but is both powerful and legitimate. The eight classifications are depicted below:

Classes of Stakeholders

Stakeholder type	***Urgency***	***Legitimacy***	***Power***
Definitive	✓	✓	✓
Dominant	✗	✓	✓
Dependent	✓	✓	✗
Dangerous	✓	✗	✓
Dormant	✗	✗	✓
Discretionary	✗	✓	✗
Demanding	✓	✗	✗
Non- stakeholder	✗	✗	✗

Source: Adapted from Mitchell, Agle, and Wood, 1997, p. 874

Figure 7: *Adapted from Mitchell, Agle, and Wood* (*1997*) *Typology of Stakeholder Classification*

Rowley (1997) develops a theory describing the relationship between the organization and the structure of its environment. Rowley classifies stakeholder according to two criteria: network density and the centrality of the organization focus. According to Rowley, network density influences the stakeholder's ability to influence the focal organization. The centrality of the focal organization influences its ability to resist stakeholder's constraints. Using these two criteria, Rowley proposed 4 classifications of stakeholder (Compromiser, Commander, Subordinate, and Solitarian) to describe the interaction between density and centrality.

A Structural Classification of Stakeholder Influences: Organizational Responses to Stakeholder Pressures			
	Centrality of Focal Organization		
		High	**Low**
Density of the Stakeholder Network	**High**	Compromiser	Subordinate
	Low	Commander	Solitarian
Rowley, T.J "*Moving Beyond Dyadic Ties: A Network Theory of Stakeholder Influences*" Academy of Management Review 1997, Vol. 22, No. 4, 897-910. P. 901			

Figure 8: *Adapted from Rowley* (*1997*) *Typology of Stakeholder Classification*

Scholes and Clutterbuck (1998) proposed three criteria for categorizing stakeholders: power to influence the organization, impact on the stakeholder group (by the organization), and alignment with the organization's objectives/strategies. Their discussion uses these criteria to prioritize stakeholder needs. While the authors propose criteria for determining salience, they do not necessary create clear "groupings" as the relative attributes (power, impact, and alignment) are measured on a continuum rather than a dichotomous scale.

Frooman (1999) divided stakeholders into four categories: "firm power," "high interdependence," "low interdependence," and "stakeholder power." Frooman based these classifications upon their resource dependency relationships with the firm.

		Is the stakeholder dependent on the firm?	
		No	Yes
Is the firm dependent on the stakeholder?	No	Low interdependence Indirect/withholding	Firm power Indirect/usage
	Yes	Stakeholder power Direct/withholding	High interdependence Direct/usage

Figure 9: *Adapted from Frooman* (*1999*) *Typology of Stakeholder Classification*

Friedman and Miles (2002) proposed a stakeholder classification typology based on two distinctions: (1) whether the relationships with the stakeholder are compatible/incompatible with the organization in terms of ideas or material interests; and (2) whether the relationship between the organization and stakeholder is necessary (internal to a social structure) or contingent (external/not integrally connected).

	Necessary	**Contingent**
Compatible	**A** **Explicit/implicit recognized** *Protectionist/defensive* Shareholders Top management Partners	**B** **Implicit unrecognized** *Opportunism/opportunistic* The general public Companies connected through common trade associations/initiatives
Incompatible	**D** **Explicit/implicit recognized** *Concessionary/compromise* Trade unions Low-level employees Government and their agencies Customers, Creditors Some NGOs	**C** **No contract** *Competition/elimination* Aggrieved or criminal members of the public Some NGOs

Figure 10: *Adapted from Friedman and Miles* (*2002*) *Typology of Stakeholder Classification*

Following the same dyadic framework as many earlier theorists (Savage et al., 1991; Rowley, 1997; Scholes & Clutterbuck, 1998; Frooman, 1999; Friedman & Miles, 2002). Kamann (2007) proposed a basic matrix to differentiate between four types of stakeholders. The four types differ in (a) the interest they have in the organization and (b) the power they (potentially) hold to influence the organization. The four types are: Type A (Minimal Effort/Low Power and Low Interest); Type B (Keep Informed/ Low Power and High Interest); Type C (Keep Satisfied/High Power and Low Interest); and Type D (Key Players/High Power and High Interest).

Fassin (2009) proposed three stakeholder groups classified by their relative "proximity" to the focal organization. The three categories encompass the internal constituents with a "real stake" in the company (stakeholders), the pressure groups that influence the firm (stakewatchers), and the regulators who impose external control regulations upon the firm (stakekeepers).

It is not enough, however, for managers to simply understand the relationship between the firm and the stakeholder through classification. This understanding of the relationship is critical in order to engage in actions to meet stakeholder demands on the organization. As will be discussed in the next section, the proper classification of stakeholders is critical to stakeholder prioritization for the purpose of achieving organizational objectives as all stakeholders can neither be taken simultaneously into account nor receive the same level of attention.

Stakeholder Prioritization

The previous section examined the extant literature to identify various approaches to categorizing stakeholder interests. Once relevant stakeholders are identified and grouped into manageable categories, the next proposed process step is to develop a blueprint by which managers may address those concerns that are most important to the successful management of the organization within the context of their environment. This section will examine the extant literature with focus on the prioritization of stakeholder claims to clarify how managers might approach the process of stakeholder prioritization.

The prioritization of competing stakeholder claims constitutes an important topic in stakeholder research (Laplume, Sonpar, & Litz, 2008). Managers are constantly balancing the claims of stakeholders against those of other stakeholders, particularly shareholders (Berman, Wicks, Kotha, & Jones, 1999). This warrants an assessment of the validity of the stakeholder's claim and how addressing this claim will impact the firm's performance. It is to be reasonably expected that salient stakeholder interests are embedded in the firm's nexus of interdependencies with these stakeholder groups. It is also understood under agency-theory that managers act as the responsible "locus of control" for the firm's decision-making "apparatus" (Jensen & Meckling, 1976; Hill & Jones, 1992). Through such reasoning, managers are tasked with identifying important stakeholder claims and prioritizing them in a manner that satisfies these varying interests (Freeman & Evan, 1990; Mitchell et al., 1997). In other words, stakeholder identification and prioritization help managers optimize the creation of value across their network of stakeholder relationships (Asher, Mahoney, & Mahoney, 2005; Hill & Jones, 1992).

Evan and Freeman (1988) defined stakeholder theory as Kantian by nature. They asserted that each stakeholder group has its own intrinsic value to the firm and thus has its own right to participate in the decision-making process of the organization. However, limited resources could force the manager to focus mainly on the most important stakeholder(s) (Madsen & Ulhoi, 2001). For those managers with limited resources, correctly identifying the most salient stakeholders and accurately prioritizing their claims are essential to the successful management of the organization.

The implications of effective stakeholder management are felt by shareholders as well as by those stakeholders directly affected by the actions of the firm (Jawahar & McLaughlin, 2001). Successful stakeholder management relies upon the accurate identification of stakeholders and the assessment of stakeholder salience to correctly prioritize stakeholder claims. The inaccurate assessment of salience is likely to result in the mismanagement of stakeholders, potentially resulting in financial and reputational harm to the organization and to the stakeholders themselves (Neville, Bell, & Whitwell, 2011). Thus, the management of stakeholder interests is expected to be more effective if the organization correctly identifies those stakeholders whose interests are most aligned with the strategic objectives of the organization.

Embedded within discussions of stakeholder saliency are issues associated with ownership, an area that has received substantial attention among stakeholder theorists. Some theorists have suggested that because of their fiduciary claims over the firm, stockholders (owners) maintain special status and are (or should be) afforded certain priority in managerial decision-making (Williamson, 1985; Goodpaster, 1991). Others, however, have argued that all stakeholders have their own unique characteristics and do not warrant any preferential treatment as a result of their fiduciary stake in the firm (Boatright, 1994). Reynolds et al. (2006) acknowledged this power differential in favor of stockholders and contended that there will be a significant difference in the balance of stakeholder interests between decisions involving stockholders/owners and those that do not.

Freeman et al. (2007) argued that business logic based on the shareholder approach (that is, maximizing returns for one group only - the firm's owners) narrows the potential for value creation and imparts a false sense of security among management (Freeman, Martin, & Parmar, 2007). According to stakeholder theory, business is about creating value for all stakeholders and the existence and survival of the firm is the result of balanced interactions with these different groups (Freeman, 1984; Evan & Freeman, 1988; Nasi, 1995; Freeman, Wicks, & Parmar, 2004). In the stakeholder literature, the concept of "value creation" is characterized as a relational exchange between the firm and all of its stakeholders as opposed to a single transactional exchange. The creation and maintenance of favorable and productive relationships with stakeholders is seen as essential in value creation for the firm (Post et al. 2002). In the long run, the firm must manage their stakeholder relationships in a way that satisfies each stakeholder in terms of what they invest and what they receive in return (Nasi 1995; Freeman et al. 2007).

Mitchell et al.'s (1997) framework of stakeholder salience is one of the most important proposals for understanding an organization's decision to actively address the concerns of particular stakeholders, as their framework provides a set of attributes that can determine which stakeholders are most likely to receive managerial attention. Their research introduces the concept of "salience" as a critical construct in stakeholder research and emphasizes the significant role played by the individual firm decision-maker (in this case, the manager) in firm-level stakeholder engagement decisions. Salience is defined as "the degree to which managers assign priority to competing stakeholders" (Mitchell, Agle, & Wood; 1997). Agle, Mitchell, and Sonnenfield (1999) empirically tested these claims by examining how CEO perceptions of stakeholders influenced critical organizational outcomes. They discovered that CEO perceptions of stakeholder power, legitimacy, and urgency influenced their perspective of relative stakeholder salience. The concept of salience and the criteria for its identification have played a dominant role in stakeholder research (Laplume et al., 2008), and the attributes identified by the stakeholder salience framework have remained relevant because of the empirical support provided by subsequent research (Agle et al., 1999; Eesley & Lenox, 2006; Knox & Gruar, 2007; Magness, 2008; O'Higgins & Morgan, 2006; Parent & Deephouse, 2007; Winn, 2001).

Over the long-term, one stakeholder group may be perceived as more salient than other groups (shareholders, for instance). However, on a decision-by-decision basis, Mitchel et al. (1997) maintain that relative saliency can vary based on the power, urgency, and legitimacy of the stakeholder's claim in that particular circumstance. Reynolds, Schultz, and Hekman (2006) contend that stakeholder claims of relatively equal saliency will lead to more balanced stakeholder interests than will claims of relatively unequal saliency.

While analyzing the three dimensions of stakeholder salience proposed by Mitchell et. al (1997), Parent and Deephouse (1997) found that power was the most influential dimension in steering managerial perceptions of salience (followed by urgency and legitimacy). They also distinguished between the three types of power described by Etzioni (1964): coercive, utilitarian, and normative power. Their findings suggest that, similar to the salience attributes, stakeholders become more salient as they accumulate more of the three types of power.

Driscoll and Starik (2004), expounding upon the three attributes of Mitchell et al. (1997), contributed a fourth variable in determining stakeholder salience - proximity. This fourth attribute incorporates "the near and the far," "the short- and long- term," and the "actual and the potential." They suggested that the more proximate stakeholders (those stakeholders closest to the firm with actual and immediate claims upon the organization) will be more salient to management. Driscoll and Starik also suggested that urgency will be partly driven by the likelihood that the content of the stakeholder's claim will actually occur. Hence, when a claim is time-sensitive and has a high probability of occurring, managers will perceive the claim with greater salience.

Managers are typically free to decide the extent to which they will acknowledge, recognize, or pursue obligations and responsibilities to their stakeholders. There is evidence that suggests that firms tend to be “good across the board,” meaning firms that are responsive to stakeholder pressures tend to be so across all (or most categories) of stakeholders and issues (Murillo-Luna, Garces-Ayerbe, & Rivera-Torres, 2008). Some stakeholder groups, however, may exert important pressures on the firm but will be routinely discarded by managers who fail to recognize them as corporate priorities (Mitchell, Agle, & Wood, 1997). For this reason, management strategies addressing stakeholder pressures reflect both the intensity of the pressures and the relative importance (hierarchy) of the stakeholder group exerting them (Clarkson, 1995).

Bundy, Shropshire, and Buchholtz (2013) contend that, when discussing stakeholder prioritization, the researcher must make the important distinction between the issue and the stakeholder themselves. They position “issue salience” as the main driver for managerial responsiveness to stakeholder claims. Their contribution is a strategic cognition view of issue salience which posits that managers prioritize issues (and, consequently the groups supporting these issues) based on their own perceptions of how these issues relate to strategic actions and goals. An important conclusion of their research is that issues not framed as salient do not receive managerial priority or attention.

Jensen (2002) proposes that managers look to "maximization of the long-run value of the firm as the criterion for making the requisite tradeoffs among its stakeholders" (1). Some authors have suggested using sophisticated analytical approaches to calculate a consistent weighting scheme to balance these decisions (Hosseni & Brenner, 1992). Bendheim, Waddock, and Graves (1998) found that the "best practice" for balancing stakeholder interests differs substantially among industries. Others (Burton & Dunn, 1996; Hillman & Keim; 2001; El-Gohary, Osman, & El-Diraby, 2006; Heikkenen, Kujala, & Lehtimaki, 2013) argued that stakeholder representation should be directly included in the managerial decision process to garner consensus from these vital groups.

While Mitchell et. al. (1997) assessed salience at the level of the individual stakeholder, it is also important to examine the role of groups or coalitions in the manifestation of stakeholder salience. Frooman (1999) contends that, while a stakeholder might compete independently for managerial attention and resources, they will also interact, cooperate, and form alliances/coalitions with other stakeholders. Thus, Neville and Menguc (2006) argued that salience may be more appropriately assessed in terms of coalitions of stakeholders who align around certain issues. These claims have received empirical support from a number of theorists who contend that stakeholder-related decisions often result from group interactions (Freeman et al., 2010; Harrison, & Wicks, 2007; Becker-Ritterspach & Dörrenbächer, 2011).

Eesley and Lennox (2006) discussed the importance of distinguishing between the attributes of the stakeholder and those of the claim itself. This distinction has implications for both the legitimacy and urgency attributes in particular. For instance, they argued that salience will be separately affected by the legitimacy of the claim's content (i.e. calling for action on offshoring proposals) and the legitimacy of the stakeholders themselves (i.e. domestic employees). The authors went further by arguing that it is only the urgency of the claim (not of the stakeholder) that is relevant to the manager. Urgency, then, is characterized by the stakeholder's willingness to exercise their power.

Beyond the effect of managerial perceptions of salience, other authors have focused on external moderators of salience. Some theorists (Jawahar & McLaughlin, 2001; Altinay & Miles, 2006) have argued that salience of a stakeholder (or group of stakeholders) will change over time, or vary depending on the stage in the organizational life cycle. For instance, investors are crucial during the start-up phase while customers are more crucial during the mature phase. Similarly, Pfarrer et. al (2008) argued that salience varies depending upon the type of organizational issue at the heart of the stakeholder's claim. They suggested, for example, that activist groups and the local community increase in relative salience during times of environmental crises (Pfarrer, Decelles, Smith, & Taylor, 2008).

The proposed process framework has hitherto adopted the position that all relevant stakeholder entities merit consideration and has attempted to identify all relevant stakeholder groups. However, it is also recognized that managers and organizations have limits on their time and resources. Thus, this step emphasized ways to help mitigate which stakeholder groups will command or deserve managerial attention at different points in time (i.e., be perceived as having priority status). Prioritizing stakeholder interests for the purpose of effective organizational management is one of the key principles underlying the stakeholder concept (Freeman, 1984). Once these “salient” stakeholder interests are identified, categorized, and prioritized, managers must then act upon this information to steer their interactions with those “salient” stakeholder groups. The next section will detail the penultimate process step which focuses on the engagement of high-priority stakeholders.

Interact With High Priority Stakeholders (Stakeholder Engagement)

The previous section highlighted research on the concept of stakeholder prioritization. Once stakeholders have been identified, categorized, and prioritized, research suggests that the manager develop policies, strategies, and organizational responses to engage with those stakeholders most relevant to the core strategic interests of the organization to create value for these stakeholders. This section highlights literature discussing the topic of stakeholder engagement to aid practitioners in their approach to managing the variety of stakeholder interests.

Instrumental stakeholder theory holds that firms that contract (through their managers) with their stakeholders on the basis of mutual trust and cooperation will have a competitive advantage over firms that do not (Hill & Jones, 1992; Jones, 1995). To this end, research has suggested that adopting the stakeholder approach to management is beneficial to the organization's bottom line. This particular approach to obtaining a competitive advantage through the engagement of stakeholder groups has been labeled "stakeholder integration" in the extant literature (Hart, 1995; Sharma & Vredenburg, 1998).

In their task environment (Dill, 1958; Gerloff, 1985), organizations confront a variety of sources of uncertainty and interdependence (Bazerman & Schoorman, 1983; Pfeffer & Salancik, 1978; Thompson, 1967). To handle these problems effectively, organizations must forge relationships with the critical constituencies in their environment (Bresser & Harl, 1986; Pfeffer, 1972; Selznick, 1949). As Schoorman, Bazerman, and Atkin (1981) noted, "the management of an organization's linkages to financial institutions, suppliers, and customers may be just as crucial to the effectiveness of the total organization as its internal management" (p. 244).

Such linkages between the firm and its stakeholders may take different forms. Freeman (1984) presented a map in which the firm is the hub of a wheel and stakeholders are positioned at the end of the wheel's spokes. This conceptualization of dyadic stakeholder relationships holds only if the firm is successful in identifying its most important (salient) stakeholders.

Freeman and Evan (1990) also noted that a firm's stakeholder environment often consists of "a series of multilateral contracts among stakeholders" (354). Because stakeholder relationships occur in a network of interdependent influence, firms do not always respond to the needs of each stakeholder on an individual basis but rather to the interactions of multiple influences from the stakeholder environment at-large (Freeman & Evan, 1990; Rowley, 1997).

Huegens, van den Bosch, and van Riel (2002) developed a dyadic typology of stakeholder integration mechanisms based on the relationship between the stakeholder and firm (locus) and the firm's response to the stakeholder's influence (modus). The researchers found that the development of a mutually enforcing relationship with key constituencies (high-priority stakeholders) is broadly seen as the dominant pathway to superior market performance and yields concrete competitive benefits for practicing managers (Huegens, van den Bosch, & van Riel, 2002).

Noland and Phillips (2010) contended that firms should initiate productive multilateral communication with stakeholders. They contended that this line of communication is essential for the formation and execution of effective strategy. They contend that facilitating these relationships through honest and moral interaction is paramount and that separating ethics from the management process is detrimental to the firm's potential for success.

Burton and Dunn (1996) contended that firms should engage with high-priority stakeholders through direct stakeholder participation. They propose a more caring-based approach to stakeholder management that represent stakeholders as concrete, real individuals with claims based on more than simply economic or moral reasoning. They propose that the firm should "care enough for the least advantaged stakeholders that they are not harmed; insofar as they are not harmed, privilege those stakeholders with whom you have a close relationship" (143-144).

Lampe (2001) asked the question of how the organization is to reconcile stakeholder interests within the spirit of ethical stakeholder management. Lampe contends that business practitioners should mitigate stakeholder interests using mediation. This approach, Lampe argues, is a non-adversarial method that achieves mutual understanding through communication and collaboration.

Blair (2003) contended that a powerful set of cultural norms emphasizing cooperative behavior among stakeholders can, in fact, foster the value creation process. Blair's conceptualization of the stakeholder management process acts as a model for corporate social responsibility that seeks to engage those stakeholders to whom the firm has a fiduciary responsibility and orient the efforts of the firm in particular toward those stakeholders providing "critical contributions."

Beierle (2002) found that more intensive stakeholder involvement in decision-making processes is more likely to produce higher-quality decisions. The quality of decisions was measured using four conventional questions:

(1) Are decisions more cost-effective than likely alternatives?
(2) Do decisions increase joint gains among parties over likely alternatives?
(3) Do participants contribute innovative ideas, useful analysis, or new information?
(4) Do participants have access to scientific information and expertise? (3)

El-Gohary, Osman, and El-Diraby (2006) developed a knowledge-based system to find that stakeholder input is a crucial component of the project development process. Their research suggests that management must gauge stakeholder opinion in order to satisfy the needs of those stakeholders most relevant to the project's overall success. As a product of their research, the authors developed a semantic model (taxonomy) for effective stakeholder involvement in infrastructure projects.

Zattoni (2011) stated that the allocation of ownership rights varies by "critical contributions" involving high transaction costs, bearing the company's risk, and supplying scarce and valuable resources. The allocation of ownership rights from firm to stakeholder is based on a reciprocal relationship in which the stakeholder has something valuable to offer the firm and the firm reciprocates with the allocation of partial control of the corporation.

Heikkinen, Kujala, and Lehtimaki (2013) presented a case where a foreign investment project in Uruguay raised both supporting and opposing views among stakeholders. The authors developed a timeline of the case and concluded that interactive, multilateral dialogue (that is, considering all stakeholder interests) is a more efficient and satisfactory means of communication than ad-hoc or unilateral communication. The role of the manager, according to the authors, is to identify with stakeholders and seek an understanding and appreciation of their concerns before rendering decisions.

Fassin, Deprez, van den Abeele, and Heene (2016) analyzed how stakeholder management was applied in the case of a special youth guidance home in Belgium. The authors contend that critical stakeholders consider participation at the operational level as being more important than participation at the strategic level (e.g. on the board of directors). Their findings suggest that critical stakeholders do expect to be involved in the operationalization of strategic decisions and expect that their specific situations and interests are considered during the decision-making process.

Bottenberg, Tuschke, and Flickinger (2017) analyzed corporate governance systems in Germany. Their findings suggest that processes of cooperation, trust, information sharing, and long-term commitment lead to effective firm management and value creation for stakeholders. The authors contend that, by addressing the needs of critical stakeholders, the firm renders more balanced decisions that yield short- and long-term strategic benefits.

This section discussed the ways in which firms engage with those critical constituencies identified in the previous section. Once relevant stakeholder groups are prioritized, research suggests that managers engage with the most “salient” groups in a collaborative and constructive fashion that creates value for the stakeholder groups in question. The final section of this discussion on the stakeholder mapping process will consider the impact of effective stakeholder management on the performance of the firm.

Increase Firm Performance

Stakeholder theory provides a reasoned perspective for how firms should manage their relationships with stakeholders to facilitate the development of sustained superior financial performance. A central premise of much of the literature on stakeholder theory is that treating stakeholders well and managing for their interests helps the firm create value along a number of dimensions and yields improved firm performance (Donaldson & Preston, 1995; Freeman, 1984; 1994; Freeman et al., 2007; Harrison, Bosse & Phillips, 2010; Jones, 1995; Jones & Wicks, 1999). The extant empirical literature, reviewed by Parmar et al. (2010), is generally supportive of the positive relationship between stakeholder-oriented management practices and increased firm performance, which is almost always measured in terms of financial returns (Berman et al., 1999; Choi & Wang, 2009; Hillman & Keim, 2001). Consequently, the empirical stakeholder literature itself reinforces the idea that financial returns are the most relevant measure of the value created by a firm. While stakeholder theory, by nature, emphasizes a multidimensional approach to “value creation” (e.g., corporate social responsibility, increased wealth, improved reputation). This thesis emphasizes value creation by financial/economic measures.

Stakeholder theory is based on the assumption that the success of the firm depends on its ability to satisfy stakeholders over the long run. Jones (1995) contends that a stakeholder orientation is in the best interest of the firm’s long-term economic viability by stating that building lasting relationships with individual stakeholder groups will reduce operational costs (e.g. lower turnover will reduce hiring and training costs or stable shareholder relationships will reduce stock market volatility and lengthen strategic planning horizons).

A number of theorists contend that the stakeholder approach positively impacts the firm's perception among key stakeholder groups. As a result of this enhanced reputation, the firm is more attractive in the marketplace to potential investors, employees, and consumers (Fombrun & Shanley, 1990; Jones, 1995; Harrison & St. John, 1996). This enhanced reputation can also facilitate the formation of strategic alliances, long-term contracts, and joint ventures that broaden the firm's potential to earn economic returns (Barringer & Harrison, 2000; Harrison & St. John, 1996). Lastly, this enhanced reputation can act as a source of competitive advantage when the firm is presented with a larger breadth of business opportunities from which to select, leading to a greater degree of organizational flexibility (Harrison & St. John, 1996; Harrison et al., 2010).

Berman et al. (1999) derived a "strategic stakeholder management model," which premised that firms will address stakeholder concerns to the extent that (they believe) doing so will enhance the firm's financial performance. These authors found that fostering connections with key stakeholders (and allocating resources accordingly) can help with firm profitability. This study also found a positive relationship between return on assets and the level of support the firm provides its employees.

Hillman and Keim (2001) found that firm support for the interests of primary stakeholders was positively related to firm financial performance. These findings were later supported by Mellahi and Wood (2003) who argued that adopting a stakeholder approach to management is instrumental to enhancing the financial performance of the firm.

Sisodia, Wolfe, and Sheth (2007) surveyed 62 corporations who adopted the stakeholder approach to management. Their findings suggested that, when compared to firms who did not engage actively in effective stakeholder management, the “Firms of Endearment” (as they were so called in their book) outperformed their competitors at a 6:1 ratio.

Post, Preston, and Sachs (2002) contended that mutually beneficial stakeholder relationships can enhance the wealth-creating capacity of the organization, while the failure to create these relationships limits the capacity of the firm to generate wealth in the future. Choi and Wang (2009) discovered that effective stakeholder management not only led to sustained superior financial performance, but also helped poorly performing firms increase their financial performance more quickly.

Harrison and St. John (1996) emphasized that stakeholder management correlates with higher financial performance. The authors cautioned that, while stakeholder management implies that more resources be allocated to satisfy the needs of various stakeholder constituencies than would otherwise be deemed necessary, the firm will realize an increased return on this investment when the stakeholder reciprocates by “treating the firm well in return.”

Thus, this section has identified a number of discussions in the existing literature surrounding the creation of value and increased firm performance stemming from effective stakeholder orientation. By correctly identifying those stakeholders most relevant to the firm's core strategic interests, managers engage with those groups who "truly matter." In doing so, the manager satisfies the core objective of the stakeholder concept by creating value for the firm and its key stakeholder groups.

CONCLUSION

Many questions remain unanswered. This process, while developed from a review of the extant literature, cannot stand alone as the panacea for the many problems facing an organization. It would be remiss to assume that the influence of the environment is the sole mitigating variable that determines the success/failure of the organization. With that in mind, it is suggested that future research be conducted to explore (in a similar fashion) the wide range of factors affecting firm performance so they might be applied in a way that is more accessible to practitioners. In doing so, organizational practice will align with theory and advance the stakeholder approach to management in various facets of the organization.

Additionally, this thesis considered the performance of the organization as measured solely by financial indicators. While economic returns are often the most apparent determinants of success/failure, these measures alone do not encompass the multidimensional nature of the stakeholder concept. Many of the inducements associated with the stakeholder approach stem from the increased returns in the form of reputation, corporate social responsibility, and improved stakeholder relationships. These benefits are often intangible and difficult to perceive from the managerial perspective but are nonetheless important considerations.

While the extant literature discusses separately many of the elements of the stakeholder approach, surprisingly little has been done to construct a comprehensive management process model that considers the influence of the environment. Such a model can facilitate the actual practice of stakeholder management within contemporary organizations and provide practitioners with a valuable tool to identify those stakeholders most relevant to the firm and address their claims in a manner consistent with the strategic goals of the organization. Thus, this thesis synthesizes a wide body of literature within organizational theory and stakeholder management theory and reinforced by empirical evidence from stakeholder initiatives taken by several visible organizations. This information was then integrated into the proposed stakeholder management process model (See Figure 5). This model is considered to be the major contribution of this thesis to the greater body of existing literature. This model and approach can facilitate the task of introducing the stakeholder perspective into an ongoing organization in an effort to improve firm financial performance and ultimately create value for the firm's relevant stakeholders.

The organization and its management must adopt this framework with the understanding of the consequences of the stakeholder approach. In pursuing a stakeholder perspective and engaging in proactive stakeholder management, the manager will materially advance the function and viability of the organization. Consequently, the firm will also develop an improved and sustained fit with its dynamic external operating environment.

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